

MARKET WATCH

LANDMARK COMMERCIAL REALTY INC.

SECOND QUARTER • 2009

Landmark Commercial Realty, Inc. - ONCOR International

MARKET THOUGHTS

The Greater Harrisburg office market continues to struggle in 2009 as absorption totaled negative 32,325 square feet in the Second Quarter.

While most buildings remain over 91% occupied, those with substantial vacancies are finding the lack of demand particularly troublesome.

Companies have been cautious when considering, expansion or relocation plans in recent months, many are now placing emphasis on economic fundamentals rather than basic building amenities.

The exact duration of this pullback remains uncertain as we have now entered the third consecutive Quarter of negative absorption an event only registered on rare occasions over the past 15 years of this analysis.

Owners should have a willingness to entertain creative arrangements, offering tenant improvement dollars in exchange for free rent. Landlords should consider executing shorter term leases on deals with substantial concessions in order to increase rental rates earlier at lease expiration. Furthermore, owners should attempt to obtain higher annual increases to minimize the effects of these lower rental rate arrangements. While these simple approaches will not completely eradicate the issues associated with the Greater Harrisburg Area's recent lack of demand, they can help to mitigate the consequences and should ensure more stable performance in the future.



Thomas T. Posavec, Vice President

MARKET NEWS

Thomas T. Posavec, Senior Partner of the Office Services Group at Landmark Commercial Realty, Inc. highlights several Second Quarter 2009 projects in which the group assisted in consulting:

- **Hoffer Properties** has recently acquired a 22,000 sq. ft. office building located at 4201 Crums Mill Road, Harrisburg from Kusic Capital. Plans call for a complete renovation of the project which will offer suites from 1,500 sq. ft. and up. The project should be available later this fall.
- **ITT Corporation** has engaged Thomas Posavec at Landmark Commercial Realty, Inc. - Oncor International to assist in its search for up to 20,000 sq. ft. of office space. The corporation is currently in the market and will make firm decisions later this Quarter.
- **A National Medical Services Firm** has engaged Thomas Posavec at Landmark Commercial Realty, Inc. - Oncor International in its search for approximately 75,000 sq. ft. of office space for a Harrisburg operations center. Currently, opportunities are being evaluated and the company should be making more formal decisions later this year.
- **Pinnacle Health Systems** has recently executed a long term lease for approximately 7,500 sq. ft. of medical office space located at Sir Thomas Court, Old English Gap Lot 5D, Harrisburg. The 15,000 sq. ft. building will be completed later in the year and is being developed by Joe Kenny. Approximately 6,600 sq. ft. space remains available at this writing.
- **Alex Grass** has engaged Roy Brenner and Thomas T Posavec to handle the disposition of the 16,799 sq. ft. former Sera-Tec Building located at 931 North 7th Street, Harrisburg. The state of the art facility is strategically located in the Heart of Downtown Harrisburg. The project offers 35 valuable on site parking spaces; 23 of which are located in an underground parking garage.

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MARKET ANALYSIS SECOND QUARTER 2009

	Number of Buildings	Total Inventory	Total Avail.	2nd Q 2009 Occup. Rate	1st Q 2009 Occup. Rate	4th Q 2008 Occup. Rate	3rd Q 2008 Occup. Rate	2nd Q 2008 Occup. Rate	2nd Q 09 Current Asking Rent*	2nd Q 09 Total Absorp. in sq.ft.
CITY										
Class A	18	1,448,475	60,800	97%	97%	97%	98%	98%	\$17.00-\$23.00	13,000
Class B+	53	1,535,542	97,450	94%	94%	95%	93%	93%	\$14.50-\$17.00	(5,000)
Class B	169	1,515,948	174,924	88%	89%	91%	89%	88%	\$12.00-\$14.50	(6,424)
TOTAL	240	4,499,965	333,174							1,576
EAST SHORE										
Class A	43	1,692,672	160,400	91%	93%	93%	93%	92%	\$17.00-\$22.00	(7,700)
Class B+	86	1,916,421	188,116	90%	89%	91%	93%	93%	\$15.50-\$17.00	13,424
Class B	141	1,514,289	140,301	91%	91%	91%	91%	93%	\$13.25-\$15.50	225
Class C	48	400,425	47,500	88%	89%	89%	87%	87%	\$10.50-\$13.25	(4,000)
TOTAL	318	5,523,807	536,317							1,949
WEST SHORE										
Class A	60	2,061,340	227,300	89%	89%	90%	90%	90%	\$17.25-\$22.00	(5,200)
Class B+	101	2,321,090	222,507	90%	91%	92%	93%	93%	\$15.50-\$17.25	(15,950)
Class B	153	1,830,493	148,800	92%	93%	93%	93%	93%	\$13.75-\$15.50	(13,200)
Class C	46	476,220	51,600	89%	89%	88%	88%	88%	\$11.00-\$13.75	(1,500)
TOTAL	360	6,689,143	650,207							(38,850)
GRAND TOTAL	918	16,712,915	1,519,698						<i>*Excluding interior suite janitorial services.</i>	(32,325)

MARKET OVERVIEW

DOWNTOWN BUSINESS DISTRICT

The lack of demand which has been prevalent over the past two (2) Quarters continues to have a negative impact on the Downtown Business District as absorption totaled 1,576 square feet. Deals are being made across the board on renewals and with new tenants in order to attract and attain valuable office users. Concessions are a must as demand has been off for several Quarters.

Although occupancy rates remain at solid levels, they have stepped down from their record levels only a few years ago and at this time over 333,174 square feet of space remains available.

The advice to landlords is to be very aggressive when a financially stable office tenant is in the marketplace. While you do not want to encumber yourself with a long term below market rental structure, concessions are a reality in times like these.

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EAST SHORE BUSINESS DISTRICT

Occupancy rates for the East Shore Business District continue to remain at respectable levels as absorption totaled 1,949 sq. ft.

Certain pockets of the East Shore Business District continue to lag the market. Older buildings are particularly susceptible to extended vacancy periods and this trend is not likely to subside for the remainder of 2009. This may be an opportune time to implement programs to upgrade aging buildings in order to better reposition these properties in the marketplace. The more amenities the building can offer the greater the chance for a successful leasing program.

Other areas of the East Shore remain healthy and are enjoying occupancy rates in the 95% range and above. In general these are newer buildings with upgraded lobbies, attractive window lines and strong locations.

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WEST SHORE BUSINESS DISTRICT

The West Shore Business District fell in the Second Quarter of 2009 as absorption totaled negative 38,850 square feet.

The Camp Hill Business District remains one of the strongest segments of the West Shore with only a few properties currently underperforming the market. Much of the Camp Hill area is currently 95% occupied or above.

The Rossmoyne Business Center will have additional availabilities later this year which will put pressure on rental rates for all segments of that marketplace. The concern of going forward will be whether demand can increase from larger users in excess of 5,000 Square feet. This segment of the market is vital to the stabilization of the West Shore Business District in the months ahead.

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GLOSSARY

Total Inventory: Excludes owner occupied facilities, medical and governmental buildings and buildings under construction or proposed.

Vacancy Rates: Total available office space divided by total inventory.

Occupancy Rates: Total available office space divided by total inventory. This calculation is then subtracted from 100.

Current Asking Rent: Projected gross asking rents per square foot considering current market conditions excluding interior suite janitorial services.

Gross Asking Rents: Rents which include all operating expenses of the facility.

Class A: Modern, upscale buildings that command the highest market rents and attract upscale tenants.

Class B+: Newer buildings or facilities that have received substantial upgrades.

Class B: Older buildings that have received some renovations and upgraded from Class C facilities and attract mid-tier rental rates.

Class C: Older buildings that have not been upgraded and command lower market rents.

Absorption: Change in occupied space for a specific period in time.

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